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EQUITIESFIRST® Progressive Capital

UPDATE ON THE FIVE ESSENTIAL QUESTIONS ABOUT TITLE TRANSFERS

We have previously explained the EquitiesFirst's financing model, which involves a temporary transfer of shares during the loan transaction, as detailed in Volume 8 – "Five Essential Questions about Title Transfers", published in July 2021. Here are the most recent data and insights.

BACKDROP

Shareholder concerns regarding title transfer while securing loan facilities include:

- Other lenders in the market claim they do not require title transfer
- Concerns about a potential negative impact on share price
- The perception of an increase in short interest following title transfer
- A comparison of capital costs with traditional margin lending
- Examination of other advantages offered by this lending model

KEY TAKEAWAYS

- Loan facilities that do not require title transfer may exhibit significantly lower loan-to-value (LTV) ratios and higher interest rates, particularly in the current rising interest rate environment, along with more stringent margin call clauses
- Lenders also have the right to force sell the collateral unilaterally
- Proprietary data demonstrating no share price impact after share pledging disclosures on HKEX
- In contrast to traditional banks and other lenders, EquitiesFirst offers the following distinctive features:
  - It is obligated by a contract not to lend shares to third parties
  - It operates with in-house capital and charges a fixed interest rate of 3.5% on average. Unlike conventional lenders, who borrow for lending purposes and apply a spread on top of interbank lending rates, which are typically floating
  - Provides non-recourse, non-purpose lending terms that do not require personal guarantees

1. HOW TO COMPARE WITH LENDERS IN THE MARKET WHICH DO NOT REQUIRE TITLE TRANSFER?

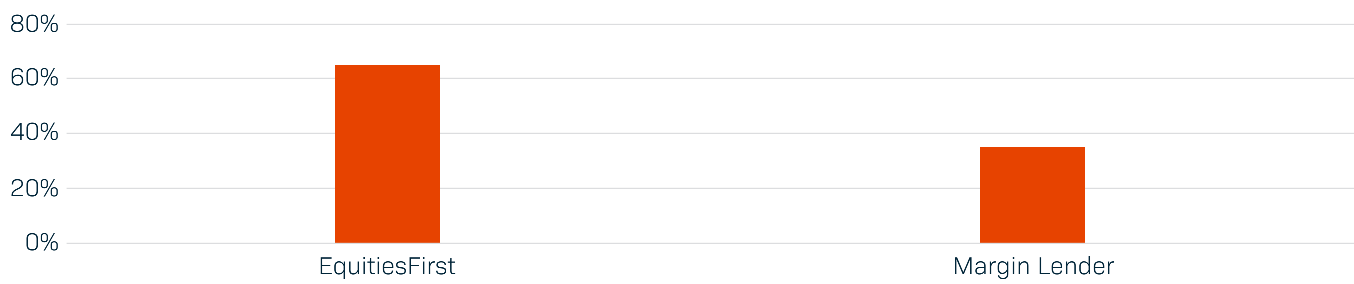
Margin lending without the requirement for title transfer represents another financial product, but it is essential to note that this option typically comes with the following characteristics: much lower LTV ratio, higher interest rate and more stringent margin call mechanisms.

- Margin lending without title transfer often offers significantly lower LTV ratios. This means that borrowers can only obtain a fraction of their asset's value as a loan.
- Borrowers opting for margin lending without title transfer generally encounter higher interest rates. These elevated rates can lead to greater borrowing costs over the life of the loan.
- This lending product often imposes more stringent margin call mechanisms. On average, a share price decrease of approximately 30% would typically initiate a margin call from traditional lenders.
    - In contrast, EquitiesFirst requires a more significant drop, with the share price needing to be halved on average before a margin call is triggered.
    - Additionally, it is important to note that many brokerage firms and banks retain the right to sell securities in the event of a margin call without providing prior notice to the shareholder.
    - In such cases, shareholders may miss the opportunity to recover potential losses if the market experiences a rebound.

EquitiesFirst's title transfer arrangements offer a host of compelling advantages, setting them apart as a more favourable lending solution:

Higher Loan-to-Value (LTV) Ratios: By choosing EquitiesFirst, borrowers can benefit from significantly higher LTV ratios. This enables them to secure a larger portion of their asset's value as a loan, empowering them with greater financial flexibility.

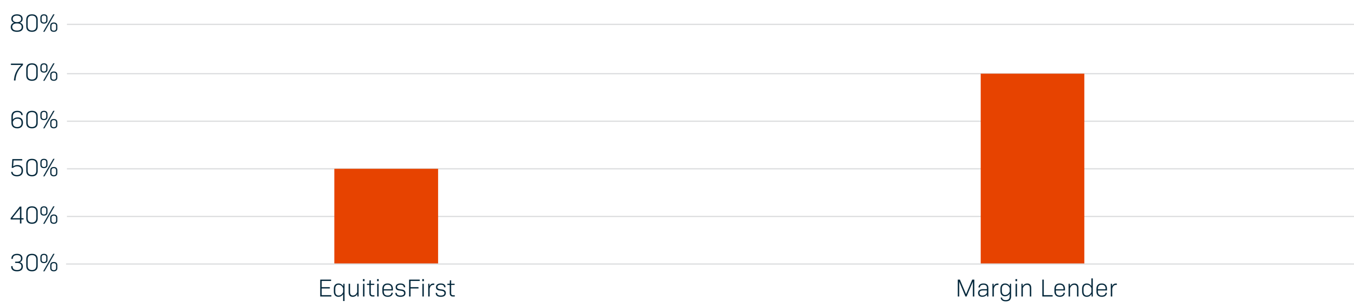
LTV (%) COMPARISON



EquitiesFirst offers a LTV ratio of 60-70%, which is more than twice as high as that offered by the margin lender.

Reasonable Margin Call Thresholds: EquitiesFirst maintains a reasonable margin call threshold, providing borrowers with a cushion against abrupt market fluctuations. This threshold is set at a level that allows borrowers to effectively manage their investments without experiencing undue pressure.

MARGIN CALL THRESHOLD COMPARISON



Source: EquitiesFirst Research

EquitiesFirst maintains an average margin call threshold of 50%, meaning a margin call is triggered only when there is a drop of more than 50% in the share price. In comparison, other margin lenders typically have a margin call threshold of around 70%, resulting in a margin call or even a forced sale event when the share price drops by 30%.

These combined benefits make EquitiesFirst's title transfer arrangements an appealing option. Borrowers can access a greater amount of capital, secure competitive interest rates, and enjoy a lending structure that balances flexibility and security. It is a comprehensive lending solution tailored to empower borrowers with necessary financial tools.

COMPARE EQUITIESFIRST'S TERMS WITH OTHER LENDERS FOR SMALL-CAP STOCKS

In addition, we have the capability to offer loans to **over 600 Hong Kong-listed companies and China ADRs** (based on our research), which is significantly higher compared to other lenders. EquitiesFirst is also able to provide competitive terms when extending loans for **small-cap stocks (defined as those valued below USD 1 billion)**. Unlike many other lenders, our offerings include:

- **Competitive Interest Rates:** EquitiesFirst maintains competitive interest rates averaging at 3.5%. This ensures that our clients benefit from favourable borrowing terms, allowing them to access necessary capital while managing costs effectively. In contrast, other lenders in the market may impose significantly higher interest rates.

- **High Loan-to-Value Ratio:** We offer similar LTV ratios ranging from 60-70%. This allows clients to secure a substantial portion of their stock's value as collateral, granting them greater liquidity. In comparison, many alternative lenders often restrict LTV ratios to just 20-30%, limiting the amount borrowers can access.

- **Reasonable Margin Call Threshold:** EquitiesFirst maintains a reasonable margin call threshold of 50% on average, which provides clients with greater flexibility in managing their investments. In some cases, alternative lenders may impose very high margin call thresholds or may not offer loans at all under similar circumstances.

These competitive terms set EquitiesFirst apart in the market, allowing us to better serve clients with small-cap stock portfolios.

2. WILL THERE BE ANY NEGATIVE IMPACT ON SHARE PRICE AFTER SHARE TRANSFER?

To address this concern, we have conducted a comprehensive analysis of the stocks that have announced share pledge transactions on HKEX since January 2021. The findings reveal a noteworthy positive trend:

- +6.9% Outperformance to Index: We observed that the share prices of these transactions demonstrated a slight outperformance compared to their respective comparable index. On average, from January 2021 to the third quarter of 2023, these stocks outperformed their benchmark index by approximately 6.9%.

- This analysis indicates that, contrary to concerns, there has been no material impact on share prices following share transfer transactions.

-22.6%	-29.5%	+6.9%
Price performance to date after the share pledge disclosure	Index's price performance to date	Outperformance to index to date after the share pledge disclosure

Source: Bloomberg, HKEX

3. WILL SHORT INTEREST IN THE SHARES INCREASE AFTER THE TRANSFER OF TITLE?

Shareholders have expressed concerns regarding the potential consequences of an increase in short interest, apprehensive about its impact on the company's share price performance and overall volatility. Some perceive that share-pledging transactions, in general, could contribute to a surge in short interest.

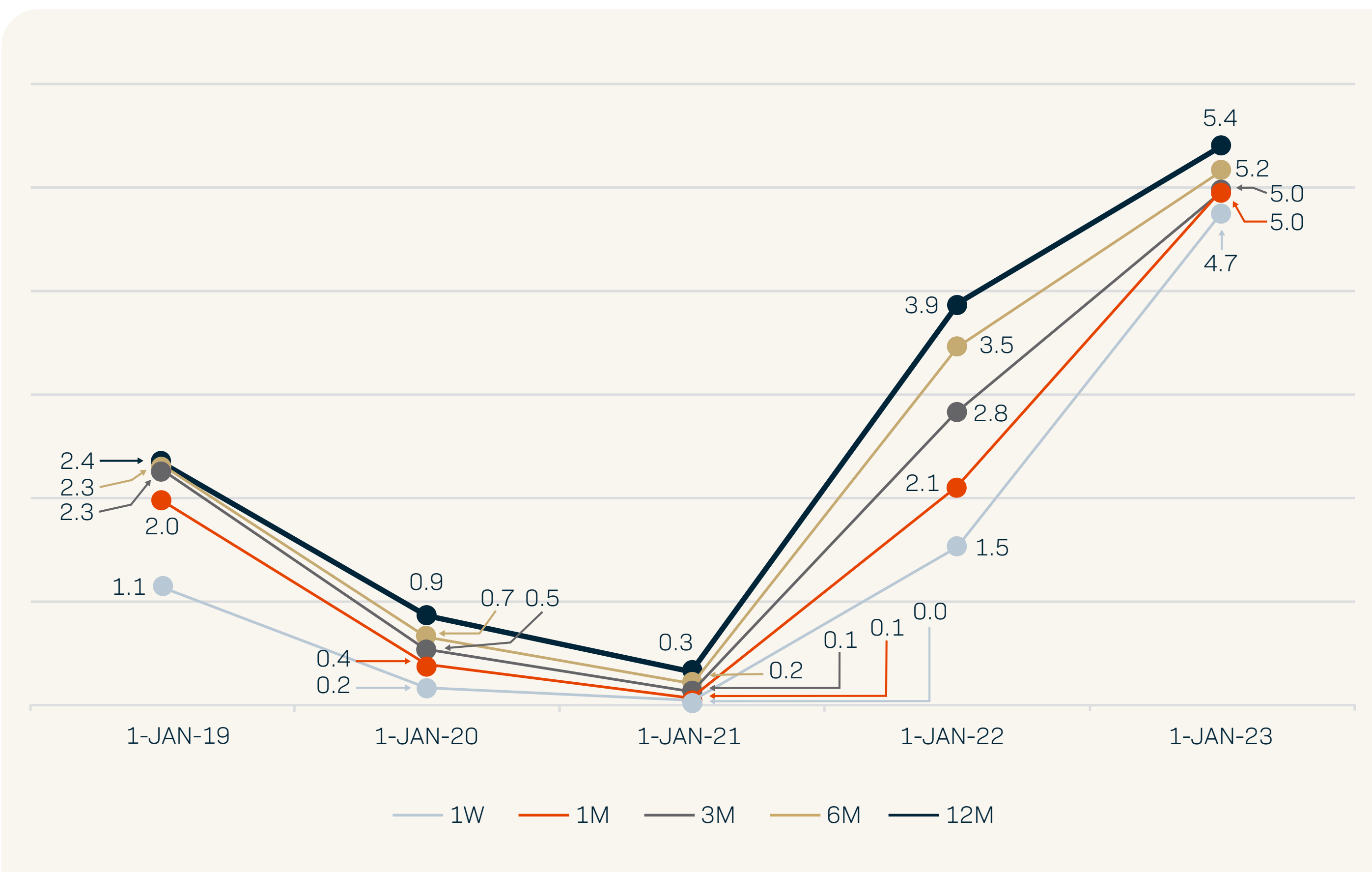
However, it is vital to note that EquitiesFirst operates under a contractual commitment **not to** lend shares to third parties or facilitate shorting. Consequently, shares pledged to EquitiesFirst ultimately reduce the pool of shares available in the market for short selling. This differs from the practices of traditional banks, which often profit by lending shares to third parties for shorting purposes. Additionally, there have been instances where shares are loaned to hedge funds to create structured products, potentially amplifying the effects of short selling.

4. HOW DOES THE COST OF CAPITAL COMPARE WITH MARGIN LENDING?

Traditional Lending Practices: Conventional lenders usually follow a model where they borrow funds themselves to then lend to borrowers. In this process, they often apply a spread on top of benchmark interest rates.

- As of 2022, the U.S. Federal Reserve raised interest rates, leading to an increase in benchmark rates such as the 12-month Hong Kong Interbank Offered Rate (HIBOR). HIBOR has surged from 3.9% in the previous year to 5.4%. This upward trend in benchmark rates directly affects the interest rates charged by traditional lenders. Borrowers may face higher borrowing costs as a result.

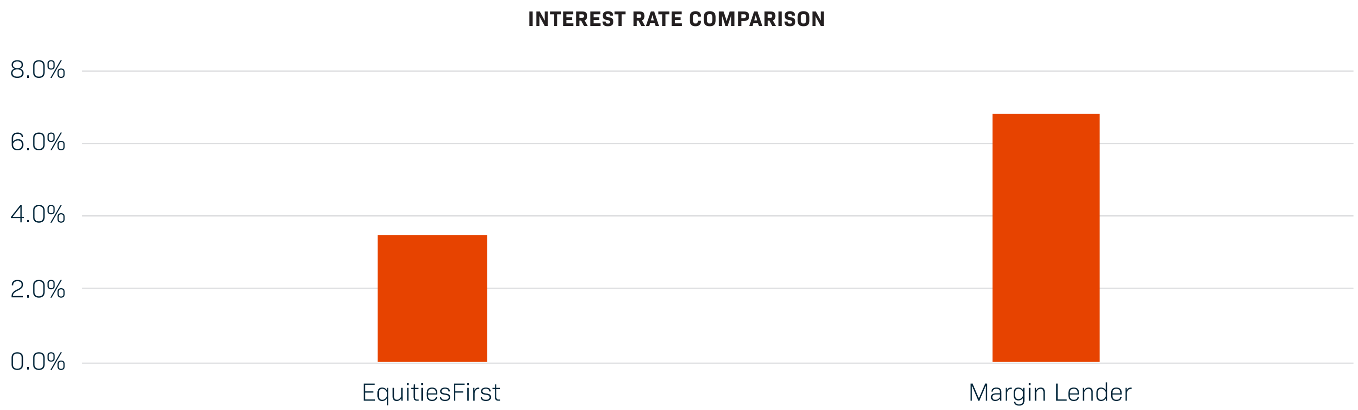
HONG KONG - HIBOR (%)



Source: Bloomberg

EquitiesFirst's Unique Approach: In contrast, EquitiesFirst operates with a distinctive approach. We provide loans using only our proprietary capital, eliminating the need to borrow funds from external sources. What sets us apart is that we maintain a fixed interest rate structure, typically averaging at 3.5%.

Competitive Interest Rates: Our lending model is designed to provide borrowers with competitive interest rates. This ensures that borrowers not only access the capital they need but also benefit from favourable borrowing costs.



EquitiesFirst charges 3.5% interest on average. Our research indicates that one of the margin lenders charges 6.8% per annum for mid to large-cap stocks, while they are unable to offer terms to small-cap stocks. Other margin lenders may charge high single-digit to even double-digit interest rates for smaller companies due to the greater risk exposure.

Importantly, our fixed rate structure insulates our borrowers from significant fluctuations in the broader interest rate environment. Even in the face of rising interest rates, EquitiesFirst borrowers can expect minimal impact on the interest rates applied to their loans.

This unique aspect of our lending model provides borrowers with stability and predictability, enabling them to effectively manage their financing costs regardless of the broader economic climate. It is a key advantage that sets EquitiesFirst apart in the lending landscape.

5. WHAT ARE THE OTHER BENEFITS OF THIS LENDING MODEL?

EquitiesFirst's lending model offers several additional advantages, including:

- **Non-Recourse:** In our lending model, the borrower's liability is strictly limited to the shares utilized in the transaction. EquitiesFirst voluntarily waives the right to pursue repayment if the borrower decides to default on the loan obligation. This means that borrowers have the option to default at any time without facing further consequences.

- **No Personal Guarantee Required:** Unlike some lending arrangements, our model does not require borrowers to provide personal guarantees, offering an added layer of financial security.

- **Non-Purpose:** The capital obtained through our loans can be deployed by borrowers for any purpose of their choosing. There are no restrictions or obligations to maintain the capital in an in-house account or to make specific purchases. This flexibility enables borrowers to utilize the capital for diverse purposes, including refinancing, securities investment, real estate acquisition, or M&A activities.

These features underscore the flexibility and borrower-centric nature of EquitiesFirst's approach.

Source: EquitiesFirst Research

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Over the past 19 years, EquitiesFirst has provided capital to hundreds of investors and entrepreneurs around the world. (https://equitiesfirst.com/)

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